



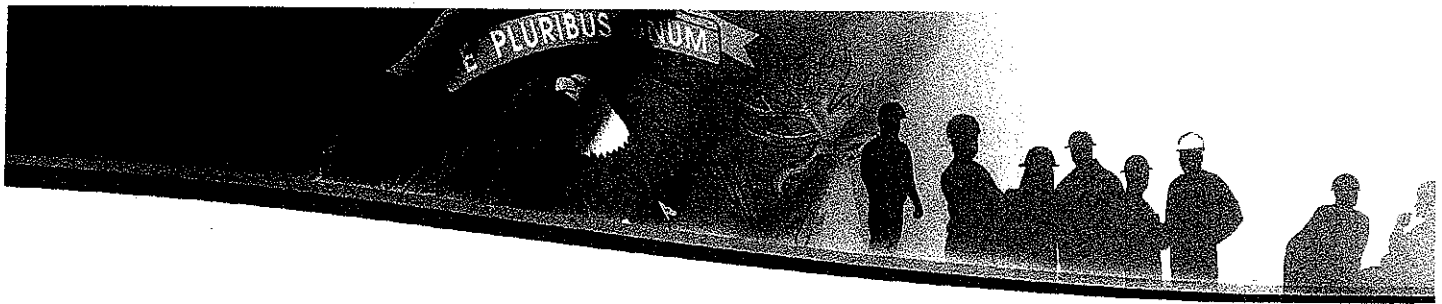
November 8, 2011

The Dow Chemical Company

STATEMENT FOR THE RECORD

**ENERGY & TECHNOLOGY COMMITTEE
MICHIGAN SENATE**

Submitted by:
Seth Roberts
Director, Energy and Climate Change Policy

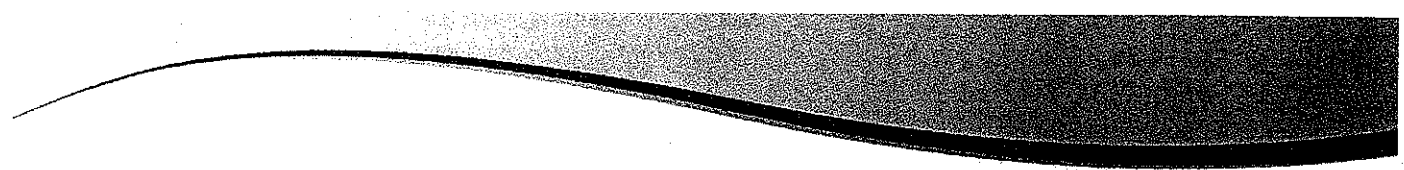


Introduction

- The Dow Chemical Company appreciates the opportunity to submit these comments to the Energy & Technology Committee.
- Dow was founded in Michigan in 1897 and is one of the world's leading manufacturers of chemicals, plastics and advanced materials. We supply more than 5,000 products to customers in approximately 160 countries, connecting chemistry and innovation with the principles of sustainability to help provide everything from fresh water, food, and pharmaceuticals to insulation, paints, packaging, and personal care products. Almost half of Dow's 50,000 employees are in the U.S., with more than 6,000 in Michigan. Dow also helps provide health benefits to around 37,500 retirees in the U.S., more than 5,000 retirees in Michigan and more than 14,500 dependents.
- Dow's Energy Plans for both America and Michigan have a clear goal in mind: A Sustainable Energy Future. Developed from a manufacturing perspective, our energy policy has four major pillars:
 1. Conserve – Aggressively pursue conservation and efficiency
 2. Optimize – Increase, and diversify domestic hydrocarbon resources
 3. Accelerate – Development of clean, renewable alternatives
 4. Transition – To a Sustainable Energy Future

Background

- Michigan is one of the great economic success stories in U.S. history. In its heyday, the state was a magnet for people, jobs and investment due to world-class capabilities in manufacturing and high demand for its product.
- However, in the past decade, this has reversed, primarily due to global competition that has steadily driven companies, jobs and investment away. When compared to other states, Michigan's per capita GDP tumbled from 16th in 1999 to 42nd in 2010 and has gone more than a decade without increased production. Today, Michigan has the third highest unemployment rate in the nation.
- In his inaugural address, Governor Snyder talked about the need to reinvent Michigan as a globally competitive leader in innovation and create more and better jobs. We at Dow share this vision and are working hard to implement it. Michigan has the resources to reinvent itself, revitalize manufacturing and regain its competitive edge.
- Dow is taking on the Governor's challenge to reinvent Michigan by creating new jobs in the clean technology field, as well as expanding current operations. Dow has plans to investment approximately \$1 billion in the Great Lakes Bay Region through our existing projects, such as Dow Kokam, POWERHOUSE solar shingles and our alliance with Tata Consultancy Services for the Business Process Services Center, among other projects, which collectively will create more than 3,000 local jobs.
- However, one key ingredient is missing: a sustainable and secure supply of affordable energy for the state as a whole.

- 
- Let's be clear, Dow has a choice and flexibility when it comes to fulfilling our energy and electricity needs. However, we also have a significant interest in reinventing this state and creating jobs. Our vendors and potential joint venture partners do not enjoy the same flexibility that we do, and this creates a significant barrier to bringing jobs into Michigan and growing the economy.

Landscape for Change

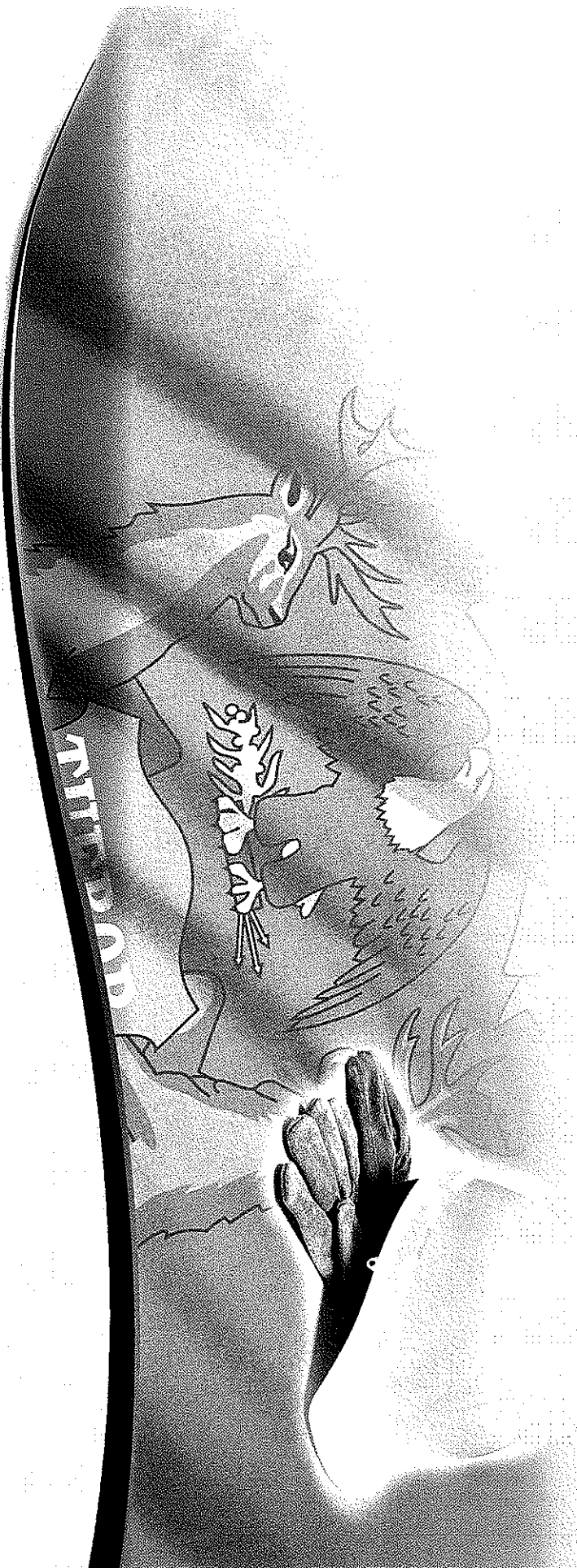
- Michigan has been hit harder by the energy crisis than most states because it is so closely connected to energy. Compared to other states, Michigan's energy consumption is high due to an active manufacturing sector, northern climate and large population. On top of that, the state is plagued with high electricity rates both regionally and nationally, putting a damper on attracting new manufacturing to Michigan.
- When it comes to electricity costs, Michigan is not an island, it's a peninsula. But with the lack of support and options for energy consumers to connect to or purchase energy from outside the state, this peninsula will soon become an island for energy sources.
- Since 2008, the rate increases implemented by the two major utilities in this state amount to over \$1 billion. Where has this money gone? During this time period, the state has not seen significant changes to base generation. Meanwhile, fuel prices, mainly for coal and natural gas, have been relatively stagnant. This begs an obvious question: What has changed?
- There are two main issues of concern: First, utilities can self-implement their own rate increases, and second, consumer ability to seek competitive relief is severely limited.
 1. Rate Increases: Under the current system, utilities are granted significant freedom to self-implement rate increases. If a utility makes a claim for a rate increase with the Michigan Public Service Commission, and the Commission does not act within 180 days, the rate automatically goes into effect. This, coupled with the lack of choice by consumers, is a recipe for high rates.
 2. Choice: Current policy severely restricts consumers' ability to purchase energy in a competitive market. The "Choice Cap" was drastically reduced from 100 percent to 10 percent under PA 286 passed in 2008. Within a year of enactment, the new 10 percent choice list reached capacity. Five thousand businesses around the state are waiting for the "Choice Cap" to change, lining up to receive the opportunity to purchase cheaper power. This is significant and must be addressed, especially at a time when Michigan has lost hundreds of thousands of manufacturing jobs. Furthermore, Michigan was the only state in the nation to lose population in the 2010 Census. One of the biggest barriers to reversing this trend is competitive energy prices. Dow believes the current "Choice Cap" regulations should be relaxed in order to allow businesses to shop around for cheaper power, including renewable sources.
 - We understand that utilities need to predict their base of rate payers and that they claim "Choice" creates difficulty in their ability to do this. However, when our state has competitive rates, the base of rate payers will be known and it will begin to encourage a vibrant, growing manufacturing sector...once again.
- Since 2008, the number and size of these claims has increased substantially -approximately \$1 billion worth of rate increases have been self-implemented. This is a tremendous cost burden by the state's residents and businesses when Detroit's population has shrunk to its lowest level since the 1920's and Michigan has lost over 400,000 manufacturing jobs.

- We also heard testimony last week that our utilities plan to invest another \$13 billion dollars in Michigan over the next five years. Who will pay for this expenditure? It appears that every rate payer in the State of Michigan will help fund it!
- Using the government's data, it is clear that Michigan's electric power rates are no longer competitive with the nation or the region. Representatives from the MPSC also testified to this fact last week.
- No other sector in our economy has a greater job creating capability than a healthy manufacturing sector. For example – for every one direct job created in the chemical industry, another five to seven indirect jobs are created in the broader economy.
- The manufacturing sector in Michigan represents roughly half a million jobs. With the clear impact the manufacturing sector has on jobs and job creation, we are deeply concerned that the voice of our sector is being lost in this discussion. Since the manufacturing sector represents the demand side of the energy equation, why does the energy strategy appear to be focused on supply?

Going Forward

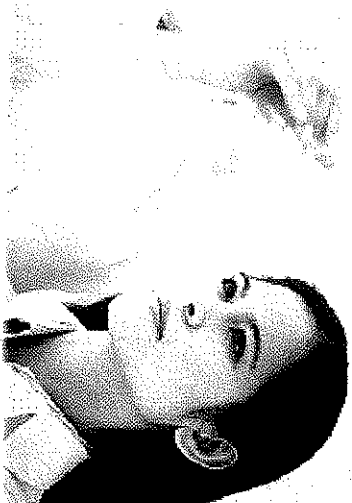
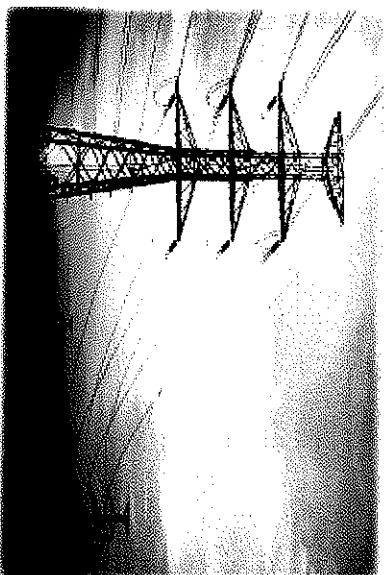
- Michigan needs an Energy Plan. Long-term reliable, competitive energy prices are too important to reinventing Michigan to leave this to chance. Because Dow is vested in this state and its energy, we are working on a state level Energy Plan specifically for Michigan. The plan is the first of its kind and will be released Winter 2011.
- In order to encourage new investment, revitalize manufacturing, and reinvent Michigan, we must make the cost of doing business here competitive with surrounding states. Low-cost energy enables future manufacturing and technologies. To achieve this, we must ask how the "Choice Cap" should be reformed to be less restrictive. We must also ask what has led to the significant increase in rates over the past three years.
- Dow calls for an independent review of the issues we have pointed out as they relate to the 2008 law. We would further recommend a special committee to investigate how Michigan can become the region's most competitive for energy costs, and top quartile in the country – and how to break through the barriers within the next six months.
- Dow also calls for establishing a public advocate for competitive energy prices.
- We would also like to extend an open invitation to members of this committee and the state to come see what we are doing to reinvent Michigan and to see the jobs being created by our efforts.

Michigan Energy Policy



Seth Roberts

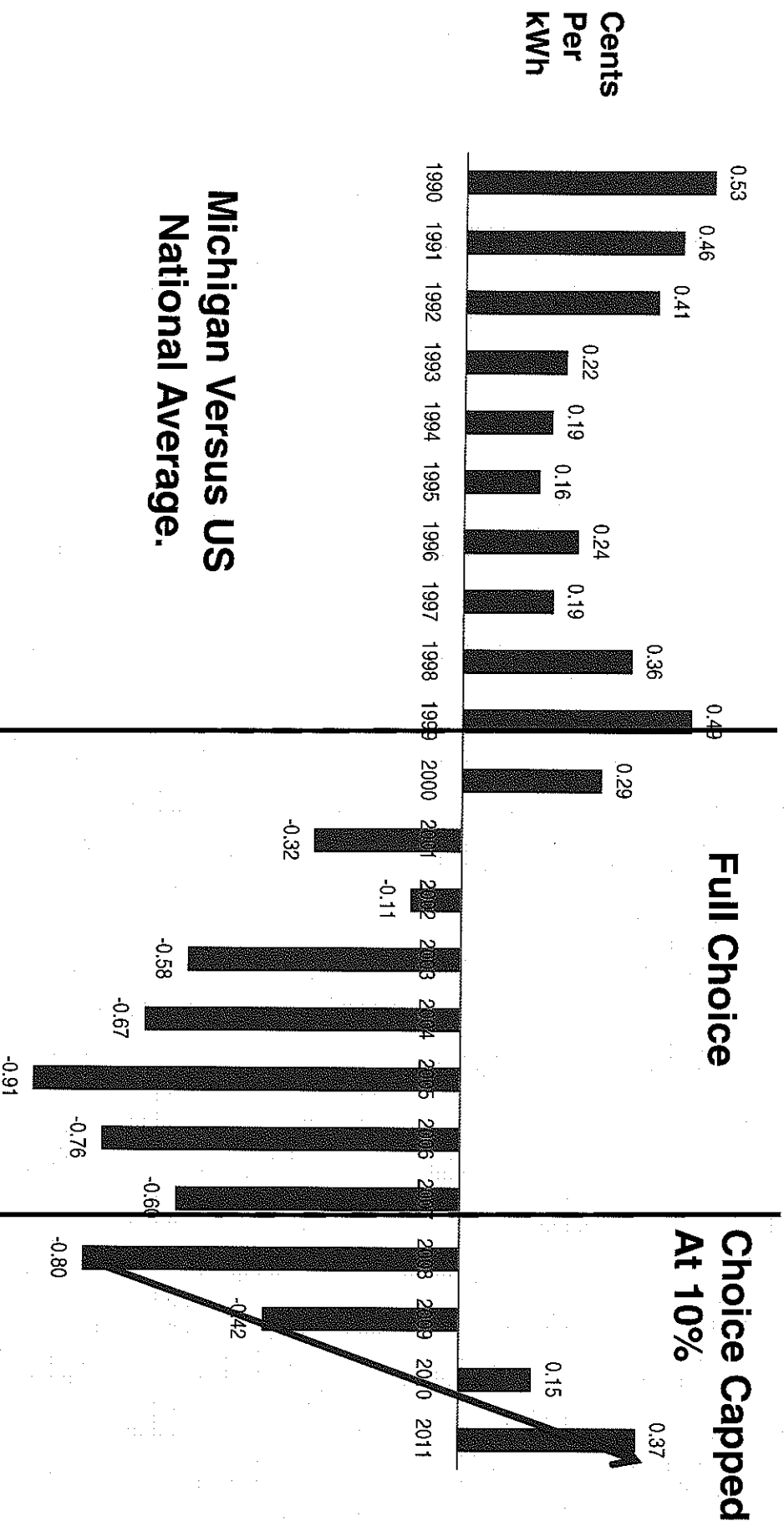
Director of Energy & Climate Change Policy



Energy + Chemistry =

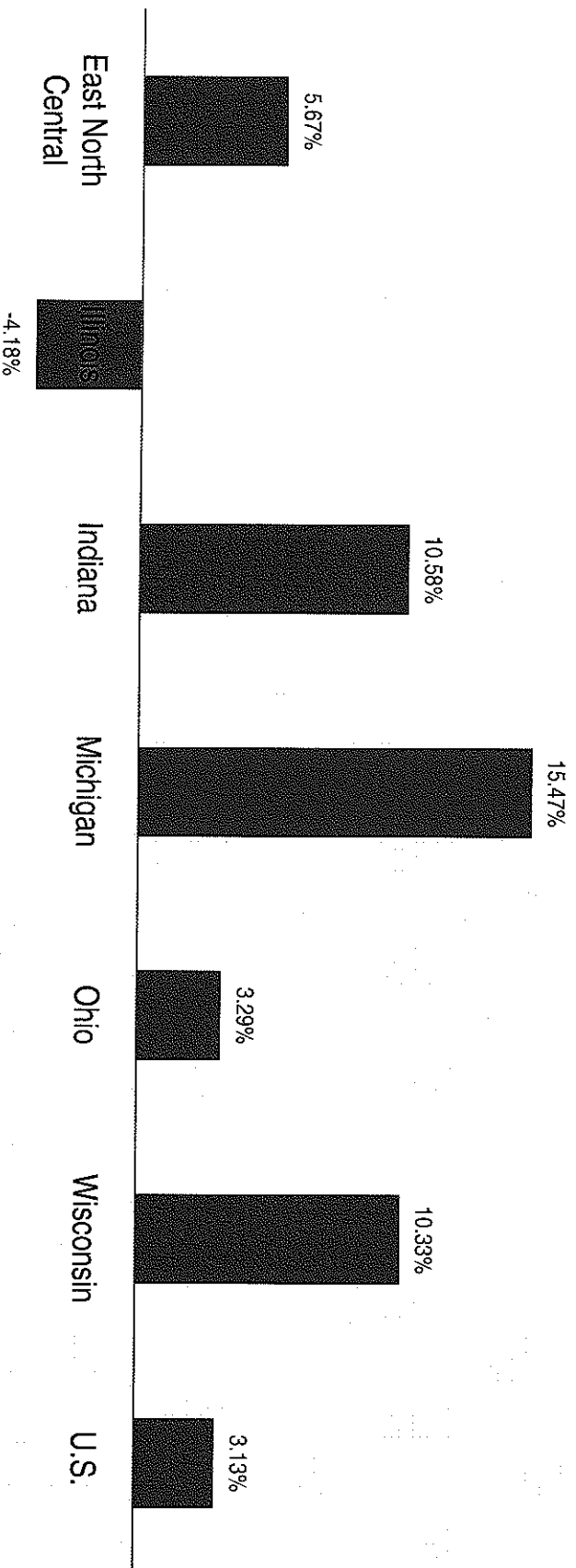
JOBS

Michigan's Rates Up Over \$1 Billion Since 2008!



Source: US Energy Information Agency

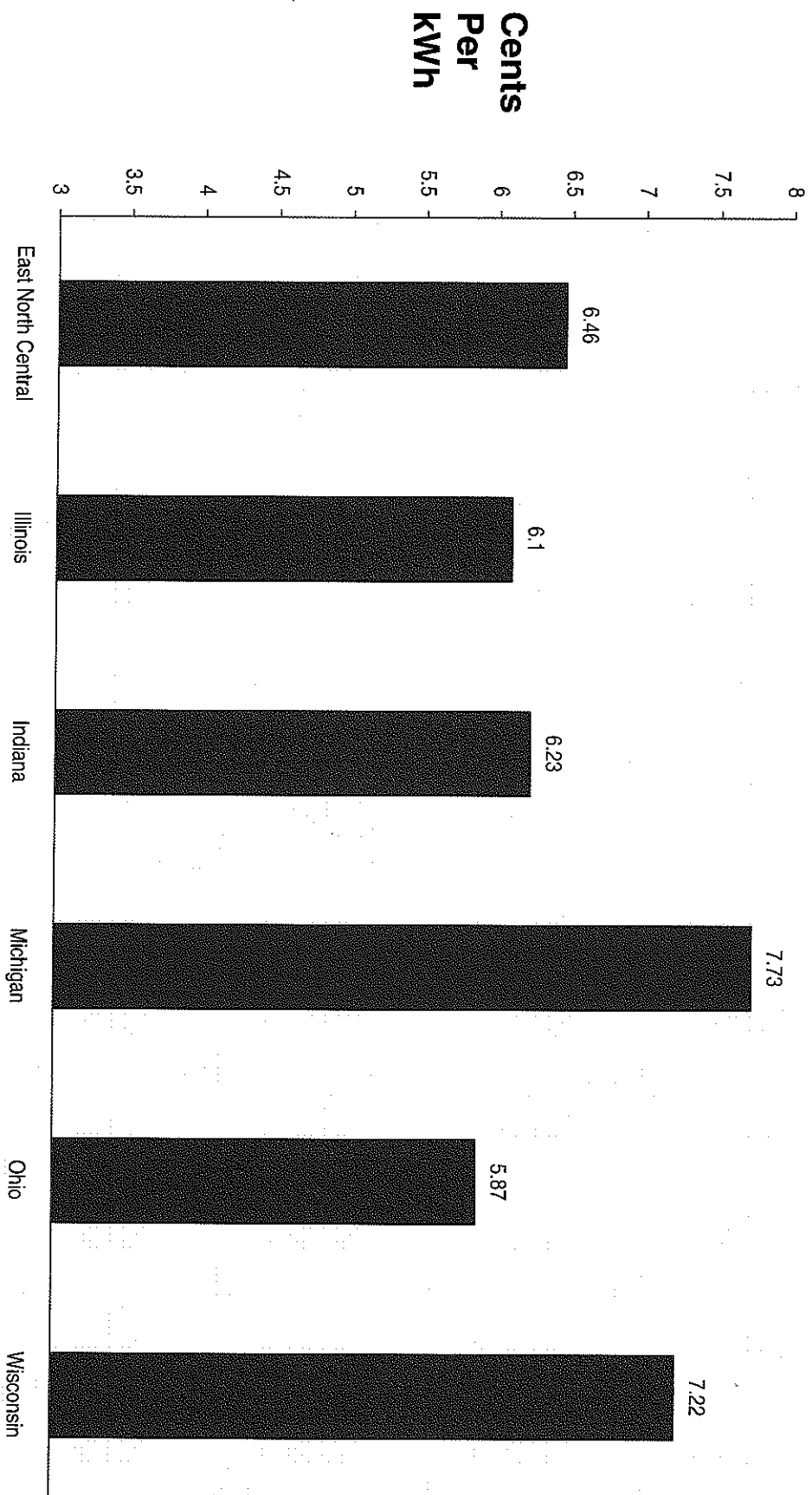
Michigan's Rates Are Rising Well Above Region



Overall electric rate increases: Dec 2008 – May 2011

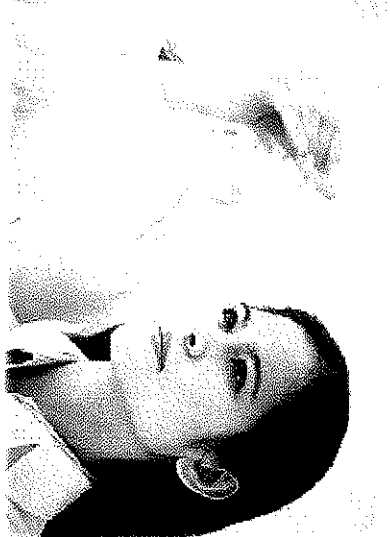
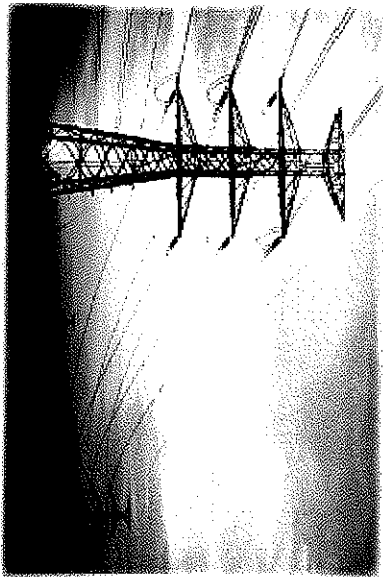
All sector increases, comparing cents per kWh
Source: US Energy Information Agency

Michigan's Industrial Rates 31% Higher than Lowest Competitor



Source: US Energy Information Agency

December 2008 – May 2011



Energy + Chemistry = JOBS